

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV IMMEDIATE

S E C R E T STATE 153301

EXDIS

FOLLOWING REPEAT JIDDA 4087 ACTION SECSTATE INFO BONN ABU
DHABI CARACAS DHAHRAN KUWAIT PARIS TEHRAN TOKYO, JULY 15TH:

FOR SECRETARY SIMON

QUOTE

S E C R E T JIDDA 4087

E.O.: 11652: GDS EXDIS

TAGS: ENRG, SA

SUBJ: KUWAITI OIL PROBLEMS; SAUDI CRUDE OIL AUCTION

REF : LONDON 8811

1. AHMAD ZAKI YAMANI, SAUDI MINISTER OF PETROLEUM, TOLD
THE AMBASSADOR YESTERDAY (JULY 14), THAT ABD AL-RAHMAN
ATIIQI, KUWAITI MINISTER OF OIL, HAS ASKED HIM DURING
THE RECENT CAIRO OAPEC MEETING NOT TO HOLD THE SAUDI OIL
AUCTION BEFORE THIS AUTUMN. ATIIQI SAID THAT HE EXPECTED
"BIG THINGS" TO HAPPEN IN KUWAIT AND, AS A BROTHER
ARAB, HE WAS SURE YAMANI WOULD NOT WANT TO SPOIL THINGS
FOR KUWAIT.

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2. YAMANI SAID HE WAS SURE THIS MEANT EITHER THAT GULF AND BP WERE ABOUT TO ACCEPT KUWAIT'S DEMAND OF 95 PERCENT OF POSTED PRICE FOR BUY-BACK OIL OR THAT THE KUWAIT OIL COMPANY WAS ABOUT TO BE NATIONALIZED, NEITHER OF WHICH WOULD PLEASE SAUDI ARABIA.

3. THE AMBASSADOR TOLD YAMANI THAT THE USG AND HMG HAD URGED GULF AND BP TO REMAIN FIRM. WE HAD TOLD THE COMPANIES WE HOPED OIL PRICES WOULD SOON DROP AND THEIR AGREEMENT NOW TO PAY VERY HIGH BUY-BACK PRICES WOULD TEND TO FREEZE WORLD OIL PRICES AT HIGHER LEVELS THAN MOST GOVERNMENTS WOULD CONSIDER TOLERABLE.

4. YAMANI SAID "THANK GOD, YOU'VE FINALLY DONE THIS; WE CAN NOW RELAX FOR A WHILE." THE AMBASSADOR TOLD HIM HE THOUGHT IT WAS PERMATURE TO RELAX. GULF WAS IN A DIFFICULT POSITION; IT HAD FEW SOURCES OF CRUDE; IT FEARED THE LOSS OF KUWAIT WILL REMOVE IT FROM THE WORLD OIL MARKET. FURTHERMORE, GULF IS ABLE TO PASS ON THE KUWAITI TAXES TO ITS CUSTOMERS. IT WAS THEREFORE NOT AT ALL CERTAIN THAT FULF WOULD TAKE ANY USG ADVICE.

5. "THEN GULF IS STUPID," YAMANI REPLIED. HE SAID THAT THERE IS NO DOUBT THAT IT WILL BE NATIONALIZED SOON. HE ASKED WHAT ADVANTAGE THERE WOULD BE FOR GULF TO BUY BACK OIL AT 95 PERCENT OF POSTED PRICES WHEN IT WAS ABOUT TO LOSE ITS 40 PERCENT EQUITY ANYWAY. WOULD IT NOT BE BETTER TO RISK IMMEDIATE NATIONALIZATION AND GET OIL FROM KUWAIT AND ELSEWHERE AT "80 PERCENT OF POSTED PRICE AND EVEN LESS" THAN TO LOCK THEMSELVES INTO A HIGHER PRICE, RISK HAVING THIS ESTABLISHED AROUND THE WORLD AND STILL BE NATIONALIZED IN TWO MONTHS?

6. YAMANI SAID HE INTENDED, IN SPITE OF ATIIQI'S REQUEST, TO HOLD HIS AUCTION IN AUGUST. THE AMBASSADOR SUGGESTED THIS MIGHT BE TOO LATE; GULF AND BP MIGHT NOT BE ABLE TO STAND UP THAT LONG TO KUWAIT PRESSURE. IF WE COULD GET A NEW LOW "MARKET PRICE" ESTABLISHED IN JULY THEN IT WOULD BE CONSIDERABLY MORE DIFFICULT FOR OTHER OPEC COUNTRIES TO INSIST ON PRICE INCREASES. YAMANI AGREED
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AND SAID THAT HE WOULD DO EVERYTHING HE COULD TO HAVE THE ACUTION STARTED BY THE END OF JULY.
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